20 August 1988

MEMORANDUM

SUBJECT: Comments on Kissinger column, "The Rise of Mexico"

Kissinger's analysis of the domestic political scene appears right on the mark.

-- The Cardenas coalition presents an unprecedented challenge to the PRI's traditional way of doing business.

-- A more pluralistic system seems to be emerging and there is some risk of political fragmentation.

-- Salinas lacks the political base and popular support to sustain a harsh austerity program for another sexenio.

-- In order to promote economic growth, Salinas will have to seek debt relief--at some real costs to US banks and Washington.

At the end of the article, however, Kissinger argues that the US must be more accommodating or else Salinas will be forced into a policy of confrontation.

-- We believe that Salinas is likely to adopt a more confrontational approach with the US regardless of how Washington responds to the debt issue.

-- One of Salinas' domestic political liabilities is that he is perceived as being too close to the US, and he probably will try to establish some distance between himself and Washington in order to deflect criticism from the left and develop a more populist image.

The Rise of Mexico

While much of the world's attention has been focused on winding down the Iran-Iraq war, an event at America's border may be of even greater long-term significance: for the first time in 60 years Mexico's governing party, the PRI, has failed to achieve an overwhelming victory in a presidential election.

North Americans have not really absorbed the fact that Mexico is emerging as a major player on the international—and, even more, the regional—scene. At the end of World War II Mexico had a population of about 16 million. By the turn of the century it will have grown to some 100 million. Its economy could become comparable to such current stellar performers as Korea—provided it follows sensible economic policies and the foreign debt burden is eased. North American and Mexican destinies are intertwined, moreover, because some 20 million U.S. inhabitants are of Mexican descent.

The leaders of both countries know these things. Yet they are frustrated because they have been unable to give concrete expression to this knowledge. North Americans, acting out their national experience of uninterrupted progress, assume that the natural harmony of interests between the two countries is obstructed by strange customs, corruption and political authoritarianism south of the border. Mexicans, whose history alternates disaster with redemption and who remember that they lost half of their country to the United States in the 19th century, interpret U.S. professions of good will as interventionism in disguise. This attitude is nurtured by many Mexican intellectuals, who, as in most Latin American countries, embrace Marxist stereotypes of Americans and of the economy, even while these have gone out of fashion in Marxist countries.

These problems may become even more intractable because the recent presidential election will almost certainly cause Mexico to be preoccupied with its domestic drama. The closeness of the election—barely more than 50 percent for the governing party—indicates the struggle for political power will be less shaped by a subtle system of secret consensus building and will move increasingly into the open. Even more significant is that an apparently credible alternative to the left of the governing party has emerged: the coalition of leftist political parties and PRI dissidents, which under the banner of Cuauhtemoc Cardenas received 30 percent of the vote. While small Communist and Socialist groups have contested presidential elections, the PRI has never faced a real challenge from its left. That Cardenas is the son of a legendary PRI president and himself was expelled from the PRI because he urged a more open selection process for the presidential candidate makes the challenge more deadly. Having defined itself from its founding as the authentic revolutionary party, the PRI will resist being pushed into a social democratic or centrist role. The paradox of Mexican politics is that while the candidate-elect is advocating a more open economic system with less governmental controls, all inclinations of his party are to protect its populist heritage.

The PRI has never perceived as its role to compete with other parties for political power; it has seen itself as

"... the evolution toward more open political contests is likely to prove irreversible."

the expression of the nation, encompassing all the various social tendencies. A former Mexican president expressed this challenge to me as follows: "European countries were nations before they became states; Mexico became a state which has to form a nation." The PRI did not so much impose its will—though in an extremity it did not shrink from it; it strove for a national consensus by co-opting possible opponents.

The election of a new president every six years has been a stage in that process of co-optation. The new president has been presented as the choice of his predecessor—thus symbolizing continuity—while the outgoing president has been excluded from the political process as soon as he left office—thus symbolizing renewal. But the candidate also represented a consensus among the various tendencies in the PRI. Facing only token opposition until this election, the candidate then spent a strenuous year campaigning in every state, visiting all the cities and many of the villages. The purpose was to ratify the transfer of power and to foster a sense of national belonging. But, as Mexico's population exploded, as it moved into the industrial age and as problems became increasingly technical, the rural base of the PRI grew less significant and the old subtle method of consensus building became less relevant.

Thus a party system is emerging, though not in a uniform manner, and against the background of Mexico's traditional fear of fragmentation. The largely agricultural south is extremely poor and similar to the neighboring countries of Central America with the same radical temptations and the objective conditions for guerrilla movements. The industrial north is more akin to the United States. Mexico City, with a population larger than all of Mexico a generation ago, partakes of both worlds. The hostility of the PRI to a full-blown Western-style party system is no doubt influenced by the tendency of all political leaders to seek to hold on to power. But it also reflects the fear that too sudden a change might tear Mexico's brittle social fabric and create a regional confrontation.

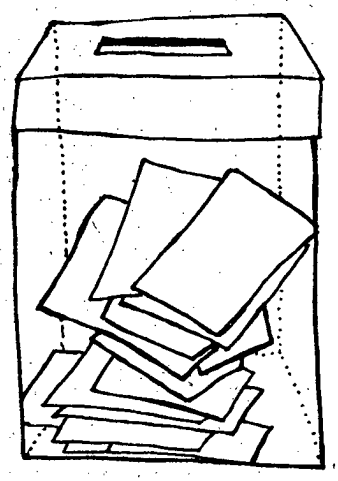
In any event the debate is becoming moot. The newly elected candidate—Carlos Salinas de Gortari—insisted on a "transparent," that is to say honest, electoral result, and he may have achieved part of his desire, for a massive fraud would surely have produced a more clear-cut outcome. Yet the opposition parties have been able to mount many challenges to the vote. At this writing it cannot be predicted whether the Cardenas grouping will become a permanent feature in Mexican politics or whether it will be folded back into the PRI. But whatever the outcome the evolution toward more open political contests is likely to prove irreversible.

The question is whether this process can be accomplished without turmoil. Mexico's internal policies and

U.S.-Mexican relations will inevitably be transformed. Traditional PRI policy has been to appeal to its conservative wing with domestic policy and to its radical wing with foreign policy. PRI domestic policy protected the Mexican commercial establishment from foreign competition, thereby guaranteeing generous profits. PRI foreign policy reinforced Mexico's historic distrust of the "colossus to the north" with the conviction that radical slogans were safe because in the end real threats to Mexico's security would be dealt with unilaterally by the United States.

That situation is changing. The candidate-elect has proclaimed his intention of accelerating the policies of his predecessor in opening up the Mexican economy. But the new political forces will make his task extremely difficult. To be sure, by U.S. standards the task looks manageable. After all, the free-enterprise PAN party gained just short of 20 percent of the presidential vote and the PRI a little over 50 percent. But the PRI cannot govern with a center-right coalition without contradicting its history. Its left wing together with the Cardenas group—which largely sprang from the PRI—may actually have the support of a majority of the voters. As he moves forward with a free-market agenda, Salinas will surely face massive populist pressures.

Mexico's political evolution is beyond the U.S. capacity to influence, perhaps even to understand. The slightest hint of intervention would unite all factions against the gringos. There is, however, one issue with respect to which the United States can play a major role in encouraging democracy and economic reform: Mexico's massive foreign debt. Salinas' liberal economic policy can be sustained only by growth. But the Mexican economy cannot grow so long as debt service consumes more than 6 percent of the Gross Domestic Product. President de la Madrid has courageously pursued the orthodox but harsh economic remedies proposed by the International Monetary Fund and the creditor banks. As a result consumption per capita has dropped by some 15 percent; real wages have fallen by some 40 percent; total employment has stagnated, while the labor force has been growing at the rate of 3.6 percent per annum.



BY MARIAN KRAININ

For years debt service has been handled by lending the debtor the funds to pay interest in return for the promise of economic reform. The practical result has been growing debt, increasing interest payments and economic stagnation. The new Mexican president simply does not possess the domestic framework to sustain austerity for another term. Salinas' dilemma is that without economic reform there will be no growth, but without outside help there will be no political framework for economic reform.

Since the onset of the debt crisis in 1982, the U.S. government has taken the position that it should not get involved. Given U.S. budgetary stringencies and congressional hostility to foreign assistance, this attitude was somewhat understandable. But the issue has now gone beyond theory. The real U.S. choice is between confrontation and an initiative to use the debt crisis to give democracy and a new cooperative relationship a chance.

The essential elements of a solution are by now well understood. The burden of interest and principal must be reapportioned between creditors and debtors, and some of the burden of relief must be borne by creditor governments, including the United States.

Many sensible schemes to achieve that objective have been advanced. One of the most imaginative was put forward last year by the Mexican government and Morgan Guaranty bank with the U.S. Treasury offering certain guarantees. James Robinson of American Express has put forward another innovative proposal. What has been lacking is a firm decision by creditor governments to assume some responsibility for the process of growth.

In the case of Mexico, this failure can turn out to be a tragedy. Mexico is one of the very few debtor countries to have pursued responsible economic policies over an extended period of time, and Mexico's economic growth and political stability are vital to American interests. Salinas is committed to domestic reform and seeks a solution based on performance, if only to provide an incentive for this task. If he is driven to confrontation because the industrial democracies are trapped by doctrine, a great opportunity will be lost and the issue is certain to reemerge under less favorable circumstances. Once economic reform takes hold in Mexico, more long-range objectives can be dealt with, for example, some form of association of Mexico with the U.S.-Canadian free-trade area, spaced over a period of years to enable Mexico to become competitive.

In the end the most profound obstacle to creative U.S.-Mexican relations is psychological. The United States has made its share of mistakes. But Mexico's leaders also have an obligation to contribute to a new approach. Mexico is now too significant a country to conduct its foreign policy entirely as an aspect of domestic politics. Some U.S. foreign policy pronouncements surely rub Mexican nerves raw. But U.S. concerns about security deal with real problems not to be lightly dismissed. Similar psychological hurdles must be overcome with respect to the drug problem. And the difficulty is all the greater because neither government has a clear focus of responsibility for dealing with the long-range goals of a relationship now scattered over a wide range of more or less parochial bureaucratic agencies.

Once every 12 years the American and Mexican presidents are inaugurated nearly simultaneously. This is one such year. It should be used to create a new approach for a relationship that could demonstrate the vigor of an association of free peoples in this hemisphere.

20 August 1988

TALKING POINTS FOR THE DCI

Cuba: A Troubled Revolution

The Cuban revolution is facing its most serious challenge since Fidel Castro came to power 29 years ago.

-- The steady deterioration in the economy has sparked growing disillusionment with his rule; real economic growth dropped 3.5 percent last year after only a 1 percent rise in 1986.

-- Moscow has refused to increase its $5.8 billion annual subsidy, and severe hard currency shortages have sharply curtailed imports of Western goods, further eroding Cuba's already mediocre standard of living.

-- As a result, an increasing number of Cubans are trying to leave the country illegally, and last November Castro moved to relieve some of the pressure by renewing its emigration agreement with the United States.

Castro himself, at 62, remains the committed revolutionary.

-- He continues to view himself as a major actor in the Third World's struggle against imperialism.

-- Despite serious economic problems at home and pressure from Moscow to follow its lead, he refuses to implement reforms--such as price incentives--that he views as anathema to the revolution.

Meanwhile, a unified political leadership and an effective internal security apparatus will ensure that the Castro regime remains firmly in control.

25X1

TIME TABLE FOR TURNING OVER THE PANAMA CANAL

Management of the Canal:

The Panama Canal Commission was formed in 1977 to operate and administer the Canal until the year 2000.

-- The Commission currently is composed of five US and four Panamanian administrators. The US appoints all nine members, although Panama proposes its nominees.

-- The Canal Chief Administrator is a US citizen and his deputy is Panamanian. This is reversed in 1990.

-- After 2000 Panama will exclusively maintain, administer, and operate the Canal. Panama will receive all Canal tolls.

Defense of the Canal:

Until 2000 the US retains all military bases and facilities and all the land and waters that it requires for the Panama Canal Defense, although the Canal Zone ceased to exist upon ratifications of the Treaty.

-- The US may maintain its current level of forces up until the year 2000.

-- After 2000 all US forces must leave Panama. However, the US has the permanent right to maintain the neutrality of the Canal and defend the Canal in conjunction with Panamanian forces.

THOUGHTS ON CAMBODIA

-- The 30-40,000 man Khmer Rouge force will be the strongest Khmer military force in Cambodia once the Vietnamese complete their withdrawal.

-- A political settlement in Cambodia most likely would result in a coalition government composed of elements of the present Vietnamese client regime in Phnom Penh and elements of the non-communist resistance forces. Prince Sihanouk would almost certainly be the central element in such a coalition -- quite possibly head of state.

-- It is unlikely, at this point, that the Khmer Rouge would be part of such a coalition -- too much mutual animosity between it and the non-communist resistance not to mention the current pro-Vietnam government.

-- The most likely settlement scenario would result in a militarily weak coalition government in Phnom Penh under pressure from a Khmer Rouge insurgency in the countryside. In other words, a continuation of this tragic civil war.

-- But ultimate Khmer Rouge victory is by no means assured if Thailand and China cease their military support to the Khmer Rouge. The Vietnamese also could well choose to re-intervene militarily if faced with the prospect of a Khmer Rouge victory.

-- The problem, in essence, will be to somehow weaken the Khmer Rouge and bolster the military forces of a coalition government. All of the various players undoubtedly will be looking to the US to help do this [redacted] 25X1 25X1